



PROPOSED RULE MAKING
(RCW 34.05.320)

CR-102 (7/22/01)
Do NOT use for expedited
rule making

Agency: Board of Accountancy

- ☒ Preproposal Statement of Inquiry was filed as WSR 03-12-083 ; or
☐ Expedited Rule Making -- Proposed notice was filed as WSR _____; or
☐ Proposal is exempt under RCW 34.05.310(4).

- ☒ Original Notice
☐ Supplemental Notice
to WSR _____
☐ Continuance of WSR _____

(a) Title of rule: (Describe Subject) WAC 4-25-622 Independence

Purpose: To promote the dependability of information used for guidance in financial transactions or for accounting for or assessing the status or performance of commercial and noncommercial enterprises and protect the public interest by requiring that persons who hold themselves out as licensed CPAs or certificateholders conduct themselves in a competent, ethical, and professional manner.

Other identifying information:

(b) Statutory authority for adoption: RCW 18.04.055(2)

Statute being implemented: RCW 18.04.055(2)

(c) Summary: Outlines when a CPA must be independent so that attest opinions, reports, conclusions, and judgments are impartial and viewed as impartial by parties expected to rely on the attest report.

Reasons supporting proposal: The Board has serious concerns with the effectiveness of the current regulations governing CPA independence and the recent nationwide decline in confidence with CPAs' ethical standards.

(d) Name of Agency Personnel Responsible for:	Office Location	Telephone
1. Drafting..... Dana M. McInturff, CPA	Olympia, Washington	(360) 586-0163
2. Implementation.... Dana M. McInturff, CPA	Olympia, Washington	(360) 586-0163
3. Enforcement..... Dana M. McInturff, CPA	Olympia, Washington	(360) 586-0163

(e) Name of proponent (person or organization): Primarily the Washington State Board of Accountancy

☐ Private
☐ Public
☒ Governmental

(f) Agency comments or recommendations, if any, as to statutory language, implementation, enforcement and fiscal matters:

(g) Is rule necessary because of:

Federal Law?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No	If yes, ATTACH COPY OF TEXT Citation:
Federal Court Decision?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No	
State Court Decision?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No	

(h) HEARING LOCATION:
Hilton Seattle Airport & Conference Center
17620 Pacific Highway South
SeaTac, WA

Date: 10/30/03 Time: 1:00 p.m.

Assistance for persons with disabilities: Contact
Cheryl Sexton by 10/24/03

TDD (800) 833-6384 or (360) 664-9194

NAME (TYPE OR PRINT)

Dana M. McInturff, CPA

SIGNATURE

TITLE

Executive Director

DATE

August 12, 2003

Submit written comments to:
Dana M. McInturff, Executive Director
PO Box 9131
Olympia, WA 98507-9131
danam@cpaboard.wa.gov EMAIL
FAX (360) 664-9190 By (date) 10/17/03

DATE OF INTENDED ADOPTION: 10/31/03

CODE REVISER USE ONLY

CODE REVISER'S OFFICE STATE OF WASHINGTON FILED	
AUG 18 2003	
TIME	3:50
WSR	03-17-060

(COMPLETE REVERSE SIDE)

(j) Short explanation of rule, its purpose, and anticipated effects:

The rule requires Washington CPAs to be responsible for maintaining independence so that attest opinions, reports, conclusions, and judgments will be impartial and viewed as impartial by parties expected to rely on the attest report. This standard is needed to establish and maintain a high standard of ethics to address the need to protect the public. The goal of the amendment is to:

Promote clarity

Ensure effective communication

Ensure fairness in interpretation and application of the rule

Promote efficiencies through minimizing gray areas

Does proposal change existing rules? ☒ YES ☐ NO

If yes, describe changes:

- 1) Changes the title of the rule to "When must a CPA or CPA firm be independent?"
- 2) Replaces specific examples of impairment of independence with an overarching independence principle
- 3) Specifically states that CPAs and CPA firms are required to (1) comply with all applicable independence rules regulations, and the AICPA's Code of Conduct as referenced in Board rule and (2) decline attest engagements where the CPA or CPA firm has a relationship that could lead a reasonable and foreseeable user to conclude that the CPA or CPA firm is not independent.
- 4) Written in clear rule writing format

(k) Has a small business economic impact statement been prepared under chapter 19.85 RCW?

- ☐ Yes. Attach copy of small business economic impact statement.
A copy of the statement may be obtained by writing to:

telephoning: ()
faxing: ()

- ☒ No. Explain why no statement was prepared
The proposed rule will not have more than minor economic impact on business

(l) Does RCW 34.05.328 apply to this rule adoption? ☐ Yes ☒ No

Please explain: The Board of Accountancy is not one of the agencies required to submit to the requirements of RCW 34.05.328.

AMENDATORY SECTION (Amending WSR 98-12-049, filed 5/29/98, effective 6/29/98)

WAC 4-25-622 ((Independence.)) When must a CPA or CPA firm be independent? ~~((1) A CPA in public practice must be independent in the performance of the following:~~

~~(a) An audit or review of a financial statement, or
(b) A compilation of historical or prospective financial statement when the CPA's report does not disclose a lack of independence, or~~

~~(c) Other attest engagements when required by board rules or other professional standards such as the statements of standards for attestation engagements.~~

~~(2) The following specific acts are examples of impairment of independence. The board does not intend this listing to be all inclusive.~~

~~(a) During the period of a professional engagement, or at the time of expressing an opinion, a CPA or a CPA's firm:~~

~~(i) Had or was committed to acquire any direct or material indirect financial interest in the enterprise.~~

~~(ii) Was a trustee of any trust or executor or administrator of any estate if such trust or estate had or was committed to acquire any direct or material indirect financial interest in the enterprise.~~

~~(iii) Had any joint closely-held business investment with the enterprise or with any officer, director, or principal stockholder thereof which was material in relation to the CPA's net worth or the net worth of the CPA's firm.~~

~~(iv) Had any loan to or from the enterprise or any officer, director, or principal stockholder of the enterprise except under certain circumstances for home mortgages, other secured loans, loans not material to the CPA's net worth, and various personal loans.~~

~~(b) During the period covered by the financial statements, during the period of the professional engagement or at the time of expressing an opinion, the CPA or a CPA's firm:~~

~~(i) Was connected with the enterprise as a promoter, underwriter, or voting trustee, a director or officer or in any capacity equivalent to that of a member of management or of an employee, or~~

~~(ii) Was a trustee for any pension or profit-sharing trust of the enterprise.))~~ When performing attest services, CPAs and CPA firms are responsible for maintaining independence so that attest opinions, reports, conclusions, and judgments will be impartial and viewed as impartial by parties expected to rely on the attest report. CPAs and CPA firms are required:

- To comply with all applicable independence rules,

regulations, and the AICPA code of conduct as referenced in and required by WAC 4-25-631; and

- To decline attest engagements where the CPA or CPA firm has a relationship that could lead a reasonable and foreseeable user to conclude that the CPA or CPA firm is not independent.

Independence is not required when performing a compilation engagement provided the CPA's report discloses a lack of independence.